

# BUSINESS LAW SECTION

## Standing Committee on Cyberspace Law

### What's in a (Domain) Name

By Scott M. Hervey[\*]

It was a strange occurrence. One day when I was checking one of our client's web site, I entered the correct domain but up popped a site I knew did not belong to our client. The site was the work of an individual whom our client had problems with before. After investigating the matter, I found out that this individual had filed a request to transfer the domain to a different registrar and, after the domain was transferred, updated the registrant information to reflect his company as the owner of the domain.

Although we were able to resolve the issue without having to file litigation, at the outset we were questioning what causes of action we could bring. We quickly concluded that we would be able to bring a declaratory relief claim concerning the ownership of the domain. However, based on the decision of the Northern District Federal Court in *Kremen v. Cohen*, it was questionable whether our client would be entitled to recover damages.

*Kremen v. Cohen* dealt with Gary Kremen's claim that Stephen Cohen hijacked the domain <sex.com> by filing a forged letter transferring ownership of the domain. Contentious litigation ensued in 1994 and was not resolved until 2000. Kremen initially plead a cause of action for conversion of the domain. However, in a May 2000 hearing Judge James Ware dismissed the conversion claim on the grounds that the domain is not personal property capable of being converted. The judge noted that the Ninth Circuit stated that "although the common law rule has been relaxed somewhat, and the tort may now reach the misappropriation of intangible rights customarily merged in or identified with some document, it has not been extended further." Although judge Ware acknowledged that the case "invites abandoning the traditional strictures of conversion to encompass forms of intangible property never contemplated in its formation", he believed that "recognition of a domain name as convertible property would essentially scrap any requirement of tangibility traditionally associated with the tort."

The judge, however, did grant Kremen's motion to amend the complaint adding a cause of action for unfair competition. Although Kremen was eventually awarded \$40 million as a disgorgement of Cohen's profits, this would do our client little good. The individual who had hijacked our client's domain was not using the domain for commercial purposes.

At the time the court made the determination that a domain name was a piece of intangible personal property not subject to conversion, the judge expressed reluctance to expand the traditional scope of conversion. At the time, under California law conversion was limited to tangible personal property and intangible personal property represented by a document, such as a bond, notes, bills or exchange, stock certificates, etc. However, two years can be a significant span of time when dealing with the Internet. Since the court's decisions, other courts have expanded the application of the law of trespass to include disputes involving the Internet.

Trespass has always been considered the lesser form of conversion, existing when a party intentionally interferes with another party's possession of personal property. The courts applying this theory of relief have determined that the electronic signals sent by the defendant through or to the plaintiff's computer server constitute the required physical contact. Despite Judge Ware's reluctance and his contention that it is the job of the legislature to craft the appropriate remedy, other courts have readily applied these ancient theories to modern issues.

If a court were to consider the issues in the <sex.com> case today an entirely different result is highly possible. Judge Ware's reluctance to apply the tort of conversion to the case stemmed from his perception that, as an intangible asset, the domain is not represented by a document, similar to the way a bond holder's interest in a bond represented by the bond itself. There are, however, documents and records which would have reflected Kremen's interest in the <sex.com> domain. For example, the transaction record Kremen would have received

(or would have been able to print out) upon his initial registration of the domain would show his interest in the domain. Also, the "who is" record of the registrar prior to the transfer to Cohen would also have shown his interest in the domain.

If Judge Ware had found the domain converted, the damages Kremen would have been entitled to might have been entirely different. Under a cause of action for conversion, the successful plaintiff is entitled to recover damages based on the value of the property converted. The value of property derives from future benefits, namely money. The value of property is equal to the discounted value of all future cash flows that will accrue to the owner, where discounting recognizes that one dollar today is worth more than one dollar tomorrow. Mr. Kremen could have realized the full value of owning sex.com in one of two ways: (1) developing a full-fledged pornographic web site, or (2) selling the rights to the sex.com domain name. Evidence introduced during trial indicated that Cohen earned over \$200 million in fees during the five year period he controlled the domain. However, this does not tell us whether these figures represented the optimal use of the domain. Perhaps Cohen's portal structure was sub-optimal and a different design would have yielded greater profits. Moreover, the court would also have had to consider the costs incurred by Cohen operations and assess the efficiency of his ownership.

Since Mr. Kremen's return, sex.com has included links to online gambling sites and reports income in excess of \$500,000 per month. This suggests that the best use of sex.com transcends the boundaries of pornography. Perhaps Cohen should have tapped this revenue source while he manned the helm of <sex.com>, which would suggest that profit disgorgement understates the full damages incurred by Mr. Kremen.

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Mr. Hervey thanks Ryan Sullivan of Bates White Ballentine for his assistance with this article.

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